INFORMATION BULLETIN #78

INCOME TAX

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SUBJECT: Foreign Source Dividend Deduction

REFERENCE: IC 6-3-2-12

A deduction is provided for foreign source dividends in the computation of Indiana Adjusted Gross Income.

DEFINITIONS:

"Foreign source dividend" is a dividend from a foreign corporation, which also includes any amount that a taxpayer is required to include in its gross income under Section 951 of the Internal Revenue Code (Sub-part F – Controlled Foreign Corporations) but does not include any amount that is treated as a dividend under Section 78 of the Internal Revenue Code (gross-up).

"Foreign Corporation" is defined under IRC Section 7701(a)(5) as any corporation formed outside the United States.

Computation of deduction:

The amount of deduction is determined by the percentage of voting stock owned, by the taxpayer, in the foreign corporation computed as follows:

1. The deduction is 100% of the foreign source dividends included in **adjusted** gross income if the taxpayer owns at least 80% of the total combined voting power of all classes of stock of the foreign corporation from which the dividend is derived.

2. The deduction is 85% of the foreign source dividends included in **adjusted** gross income if the taxpayer owns at least 50% but less than 80% of the total combined voting power of all classes of stock of the foreign corporation from which the dividend is derived.

3. The deduction is 50% of the foreign source dividends included in **adjusted** gross income if the taxpayer owns less than 50% of the total combined voting power of all classes of stock of the foreign corporation from which the dividend is derived.

Kenneth L Miller

Kenneth L. Miller
Commissioner